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South Carolina
Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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DEPARTMENT OF SOCIAL SERVICES
AGENCY

MARCH 1, 1985 - SEPTEMBER 30, 1987
DATE

STATE OF SOUTH CAROLINA
BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
1201 MAIN STREET, SUITE 420
COLUMBIA, SOUTH CAROLINA 29201
(803) 737-3880

CARROLL A. CAMPBELL, JR.
GOVERNOR

GRADY L. PATTERSON, JR.
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EARLE E. MORRIS, JR.
COMPTROLLER GENERAL



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SENATE FINANCE COMMITTEE

ROBERT N. McLELLAN
CHAIRMAN,
HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

May 16, 1988

Mr. Richard W. Kelly
Division Director
Division of General Services
1201 Main Street, Suite 400
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Department of Social Services audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Department of Social Services three (3) years certification as outlined in the audit report.

Sincerely,

A handwritten signature in cursive script that reads "D.L. McMillin".

D.L. McMillin, CPPO
Acting Materials Management Officer

Attachment

DEPARTMENT OF SOCIAL SERVICES

AUDIT REPORT

MARCH 1, 1985 - SEPTEMBER 30, 1987

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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

RICHARD W. KELLY
DIVISION DIRECTOR
December 23, 1987

Mr. D.L. McMillin, CPPO
Acting Materials Management Officer
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

We have examined the procurement policies and procedures of the South Carolina Department of Social Services for the period March 1, 1985 through September 30, 1987. As a part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Department procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Department of Social Services is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide


management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the South Carolina Department of Social Services in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Veight Shealy, Manager
Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of the Department of Social Services.

Our on-site review was conducted September 16 through December 11, 1987 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Regulation 19-445.2020.

The examination was directed principally to determine whether, in all material respects, that the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

BACKGROUND

Section 11-35-1210 of the South Carolina Consolidated
Procurement Code states:

The (Budget and Control) Board may assign differential dollar limits below which individual governmental bodies may make direct procurements not under term contracts. The Division of General Services shall review the respective governmental body's internal procurement operation, shall verify in writing that it is consistent with the provisions of this code and the ensuing regulations, and recommend to the Board those dollar limits for the respective governmental body's procurement not under term contract.

Our audit was performed primarily to determine if recertification is warranted for the existing limit of:

<u>Category</u>	<u>Requested Limit</u>
Service provider contracts funded from Social Services Block Grants and Child Welfare Service Provider Contracts funded from Federal Title IV - Service Provider being a provider of services directly to a client.	\$750,000 per contract

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of the Department of Social Services and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

The Office of Audit and Certification statistically selected random samples for the period June 1, 1985 - September 30, 1987, of procurement transactions for compliance testing and performed other auditing procedures that we considered necessary in the circumstances to formulate this opinion. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and Regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order registers;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;
- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) disposition of surplus property;

- (10) economy and efficiency of the procurement process;
- (11) Minority and Business Enterprise Utilization Plan approval.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of the South Carolina Department of Social Services (the Department) produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - Sole Source and Emergency Procurements</u>	10
A. <u>Inappropriate Sole Source Procurements</u>	10
Twenty-two sole source procurements made during the audit period are inappropriate as such. However, the majority of these exceptions were processed during fiscal year 1985/86 when this office was working with the Department toward completion of our last audit. Since fiscal year 1985/86, marked improvement has been made.	
B. <u>Inappropriate Emergency Procurements</u>	11
Twenty emergency procurements made during the audit period are inappropriate as such. However, all of these were made during fiscal years 1984/85 and 1985/86. Since December 1985 no exceptions have been noted.	
C. <u>Unauthorized Sole Source Procurements</u>	11
Six sole source procurements were unauthorized as such because the required determinations were either approved after the fact or were approved by personnel without the requisite authority.	

	<u>PAGE</u>
D. <u>Emergency Procurements Resulting From Poor Planning</u>	12
Four emergency procurements were a direct result of poor advance planning of procurement needs and weak inventory control.	
E. <u>Multi-Term Sole Source Contracts</u>	13
Two multi-term contracts were not supported by the required written determinations justifying the need for multi-year agreements.	
F. <u>Untimely Reporting of Activity</u>	14
The Department has not reported the total sole source and emergency procurement activity and trade-in sales to the Division of General Services in a timely manner.	
II. <u>Compliance - Goods and Services</u>	15
Two procurements were made without competition and another procurement by the Materials Management Office was improperly extended.	
III. <u>Contracts Signed After the Fact</u>	16
The Department routinely finalizes contracts after the effective starting date of the services being procured. We recognized that the social services being procured by the Department are for immediate needs and are continuing in nature. However, this problem is too widespread.	

IV. Awards Exceeded Procurement Authority

17

Total awards resulting from single solicitations exceeded the Department's authority in six cases.

RESULTS OF EXAMINATION

I. Compliance - Sole Source and Emergency Procurements

We examined the quarterly reports of sole source and emergency procurements, each determination and the supporting documents for the period January 1, 1985 through September 30, 1987, for the purpose of determining the appropriateness of the procurement actions taken and the accuracy of the reports submitted to the Division of General Services, as required by Section 11-35-2440 of the Consolidated Procurement Code. We categorized the exceptions noted as follows.

A. Inappropriate Sole Source Procurements

Our findings in the area of sole source procurements fall into two distinct time periods. We noted numerous exceptions during the latter part of fiscal year 1984/85 and fiscal year 1985/86. However, the Office of Audit and Certification was working with the Department towards completion of our last audit at that time. Since fiscal year 1985/86, marked improvement has been made by the Department toward eliminating sole source procurement exceptions. However, we did note the following sole source procurements that we feel are inappropriate as such:

<u>P.O./REQ.</u>	<u>AMOUNT</u>	<u>QUARTER REPORTED</u>	<u>DESCRIPTION</u>
1. 54604001	\$12,500.00	12/86	Consultant - assessment of error rate reduction
2. 4293	15,336.00	3/87	Equipment for CHIPS training
3. 4503	14,432.00	3/87	Computer software
4. Contract	1,500.00	9/87	Conference presen- tation

5. 6022

4,070.30

9/87

Cellular telephone

Exceptions prior to fiscal year 1986/87 may be seen on Appendix A.

We recommend that the Department continue to guard against inappropriate sole source procurement activity.

B. Inappropriate Emergency Procurements

As noted in I.A. above, this office and the Department were cooperating toward completion of the previous audit during fiscal year 1985/86. During this audit, we noted exceptions to the emergency procurement provisions of the Consolidated Procurement Code during that time period. However, we do not take exception to any of the emergency procurements made by the Department since December 1985. We commend the Department for its prudent use of emergency procurements since that time.

C. Unauthorized Sole Source Procurements

The following sole source procurements were unauthorized because the applicable determinations were either prepared after the procurements were made or the determinations were signed by personnel who did not have the authority to do so.

<u>Requisition/Contract</u>	<u>Amount</u>	<u>Quarter Reported</u>	<u>Description</u>
DP 354	\$3,268.69	6/85	Repair 4/16/85- Determination 4/29/85
DP 393	222.25 346.75 350.25	6/85	Repair 12/21/84 and 3/8/85- Determination 4/5/85

DP 512	1,862.80	6/85	Repairs 5/11/86- Determination 6/9/86
BB-0341-0-0190	42,509.00	9/87	Not signed by Deputy Commissioner
BB-0340-0-0190	39,124.00	9/87	Not signed by Deputy Commissioner
1110307	2,223.00	6/85	Signed by special assistant to the Commissioner

Section 11-35-1560 of the Procurement Code indicates that a procurement may be made as a sole source if it is determined in writing by a chief procurement officer, a head of a governmental body or a designee above the level of the purchasing officer that there is only a single source for the needed supplies or services. The determination must be approved by one of these officials in advance of a commitment being made.

Regulation 19-445.2015 requires that unauthorized procurements be ratified by the Commissioner when less than \$2,500.00, the Materials Management Officer for procurements between \$2,500.00 and \$25,000.00 and the Director of General Services for procurements greater than \$25,000.00. These procurements must be ratified pursuant to the requirements of the regulation.

D. Emergency Procurements Resulting from Poor Planning

As a result of poor advance planning of procurement needs and weak inventory control, the Department was forced to use the emergency procurement method to satisfy its requirements.

<u>P.O./Requisition</u>	<u>Amount</u>	<u>Quarter Reported</u>	<u>Justification</u>
9776	\$11,648.00	6/85	Supply has depleted its supply of forms
9901	13,788.00	6/85	There is a little over a month's supply
1515	9,962.00	3/86	Forms. Planning has been going on to change to heat sealed form. Change has not been accomplished

Poor planning for supply items is not an acceptable criteria for emergency procurements. This situation could have been avoided with proper advance planning, scheduling and accurate inventory management. The previous audit addressed the poor planning issue associated with supply items for the Department. We recommend that immediate corrective action be taken to minimize this type of problem.

E. Multi-term Sole Source Contracts

The following sole source procurements were multi-term contracts. However, they were not supported by the required written determinations justifying multi-year agreements, as required by Section 11-35-2030 of the Procurement Code:

<u>P.O./Requisition</u>	<u>Amount</u>	<u>Quarter Reported</u>	<u>Description</u>
5579	\$35,436.00	9/87	2nd year of 5 year contract
5581	37,680.00	9/87	5 year contract

The Department should scrutinize its contracts and prepare written determinations for the ones that are multi-year agreements. Each multi-term contract must be supported by a written determination justifying the need for a multi-year agreement. Such determinations should be prepared at the time of the initial procurement.

F. Untimely Reporting of Activity

The Department has not reported its total sole source and emergency procurement activity and trade-in sales to the Division of General Services in a timely manner. The Department routinely files amended reports in these areas three to nine months after the events occur. Section 11-35-2430 of the Consolidated Procurement Code requires the quarterly reporting of sole source/emergency procurements. Section 11-35-3830 requires the quarterly reporting of trade-in sales.

In all cases, where there are definable commitment numbers for contracts, the sole source and emergency procurement and trade-in sale reports should reflect them when the procurement actions are taken. If sole source or emergency procurements are made for extended periods of time for estimated amounts and it is impossible to determine the exact commitment it may be necessary to report expenditures as they occur. However, this should be the exception, not the rule.

II. Compliance - Goods and Services

Our examination of procurements in the area of goods and services revealed that two procurements were made without competition and one procurement for printing resulted in payment being made for a quantity of forms that exceeded the allowable overrun factor of ten percent (10%).

Voucher 18125 for \$579.00 was a payment for travel services. The initiating procurement was made without competition. This is a violation of Regulation 19-445.2100, Subsection B, Item 2, which requires solicitation of verbal or written quotes from a minimum of two qualified sources for procurements from \$500.01 - \$1,499.99.

Check 3439 for \$1,900.00 was issued from the local checking account of the Georgetown County office for storage of commodities. The procurement was made without competition. This is a violation of Regulation 19-445.2100, Subsection B, Item 3, which requires solicitation of verbal or written quotes from a minimum of three qualified sources for procurements from \$1,500.00 - \$2,499.99.

Voucher 11169 was issued for \$8,761.87 to pay for 89,000 printed forms based on state purchase order 54462 for 80,000 forms. The South Carolina Government Printing Services Manual allows for a 10% overrun, i.e. 88,000 forms, however the vendor exceeded this amount by 1,000 forms.

Since the purchase order was issued by the Materials Management Office, the agency should have contacted that office to get their approval if they wanted to keep the additional 1000 forms or refused receipt if the forms were not needed.

III. Contracts Signed After the Fact

Our examination of contracts revealed that the Department routinely signs contracts after the effective starting dates of the services being procured. This is a violation of Department procedures which require that contracts must be signed by the Commissioner prior to any services being rendered. Prudent procurement practices support these procedures. However, the Department has not adhered to these procedures as evidenced by the schedule at Appendix B.

We recognize that the social services procurements made by the Department are necessary and continuing in nature. Placements of clients must be handled expeditiously. However, we fear that problems will arise if this situation continues where services are underway without established contracts which clearly outline terms and conditions. There may be situations where client placement must precede contract completion but these should be exceptions not norms.

IV. Awards Exceeded Procurement Authority

During our review of purchase order activity, we noted the following awards which exceeded the Department's general certification limit of \$2,500.00:

	<u>Award Amount</u>	<u>Date</u>	<u>Item Description</u>
1.	\$3,189.53	10/31/86	Open shelf unit
2.	4,307.82	4/24/87	Open shelf unit
3.	3,097.14	6/11/87	Office equipment
4.	3,615.00	5/09/86	Office equipment
5.	5,526.56	5/07/87	Office furniture
6.	2,802.48	3/21/86	Printer ribbons

The purchasing section incorrectly thought that the certification limit applied to the value of a single purchase order, not the total award amount. In each item referenced above, the total resulted from one solicitation where several purchase orders were issued for different lots.

In the future, all solicitations anticipated to result in awards exceeding the agency's procurement certification limit should be forwarded to the Materials Management Office.

CERTIFICATION RECOMMENDATION

As noted herein, there are several exception areas that have been problems in the past. For the most part, however, the Department has already taken or is taking the appropriate steps to eliminate these problems. The corrective action already underway coupled with the corrective action recommended in the body of this report, we believe will in all material respects place the Department of Social Services in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


Prior to May 31, 1988, the Office of Audit and Certification will perform a follow-up review in accordance with Section 11-35-1230(1) of the Procurement Code to determine if proposed corrective action has been taken by the Department. Based on the follow-up review, and subject to this corrective action, we will recommend that the Department of Social Services be recertified to make direct agency procurements for a period of three (3) years as follows:

PROCUREMENT AREA

Service Provider Contracts
Funded from Social Services
Block Grant and Child Welfare
Service Provider Contracts
Funded from Federal Title IV
Service Provider Being a
Provider of Services Directly
to a Client.

RECOMMENDED CERTIFICATION LIMIT

\$750,000 per contract
per year,
with option
to extend
one addit-
ional year



Larry G. Sorrell, Audit Manager



R. Voight Shealy, Manager
Audit and Certification

Appendix A

Department of Social Services
Inappropriate Sole Source Procurements
Fiscal Years 1984/85 and 1985/86

<u>P.O./REQ.</u>	<u>AMOUNT</u>	<u>QUARTER REPORTED</u>	<u>DESCRIPTION</u>
1. DP 234	\$172,011.00	3/85	Consultant - information management
2. 9785	20,681.00	3/85	Rotary files
3. Contract	7,000.00	6/85	Consultant - error rate reduction
4. 6	672.00	9/85	Rental of pagers
5. 66	11,600.00	9/85	Consultant- A.D.P. requirements
6. 1110304	623.23	9/85	Consultant-teen program
7. Contract	204,613.00	9/85	Consultant- staffing stand- ards
8. 1110307	2,223.00	9/85	Consultant-teen pregnancy
9. 2602001	2,780.00	9/85	Travel service
10. 251460010	4,735.56	9/85	Travel service
11. 1039	19,000.00	12/85	Consultant- training in systems devel- opment
12. 1502	5,700.00	3/86	Computer software
13. 511004	306,110.00	3/86	Computer software

14. Contract	\$100,000.00	3/86	Consultant- training-error rate reduction
15. 545991	9,000.00	3/86	Consultant- training-error rate reduction
16. 42805112	36,800.00	6/86	Consultant- assessment of Title IV-E program
17. 5068032	91,287.00	3/86	Consultant- management assessment

Appendix B

Department of Social Services
Schedule of Contracts Signed After the Fact

<u>CONTRACT</u>	<u>DATE SERVICE STARTED</u>	<u>DATE COMMISSIONER SIGNED</u>	<u>DESCRIPTION</u>
1. 88-0001-1-0186	7/01/87	8/31/87	Regional trans- portation
2. 88-0328-0-0188	7/01/87	9/22/87	Specialized foster care
3. 88-0154-0-0185	7/01/87	8/21/87	Specialized foster care
4. 88-0323-0-0188	7/01/87	8/31/87	Specialized foster care
5. 88-0148-0-0185	7/01/87	9/08/87	Specialized foster care
6. 88-0331-0-0189	7/20/87	9/11/87	Specialized foster care
7. 88-0336-0-0190	7/01/87	9/16/87	Therapeutic foster care
8. 88-0153-0-0185	7/01/87	9/16/87	Specialized residential treatment
9. 88-0156-0-0185	7/01/87	9/17/87	Specialized foster care
10. 87-0058-1-0173	4/15/87	6/30/87	Site coordination



JAMES L. SOLOMON, JR.

COMMISSIONER

South Carolina
Department of Social Services



P. O. BOX 1520
Columbia, South Carolina 29202-1520

April 28, 1988

Mr. R. Voight Shealy, Manager
Audit and Certification
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Mr. Shealy:

After reviewing the draft report of the Procurement Audit, I concur with the findings and recommendations. The necessary ratifications are being prepared and corrective actions will be taken as recommended.

We have exerted much effort toward improving procurement activities in this Agency. Continued effort will be made to ensure compliance with the South Carolina Consolidated Procurement Code.

I appreciate the positive attitude and courtesy extended by you and your staff and thank you for the assistance readily given when needed.

Sincerely,

James L. Solomon, Jr.
Commissioner

JLSjr/rsj

South Carolina Board of Social Services

R. JAMES AYCOCK, III
CHAIRMAN
AT-LARGE
MANNING

DOLORES S. GREENE
MEMBER
FIRST DISTRICT
CHARLESTON

DR. OSCAR P. BUTLER, JR.
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MEMBER
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MEMBER
SIXTH DISTRICT
HARTSVILLE

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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

May 16, 1988

Mr. D.L. McMillin, CPPO
Acting Materials Management Officer
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear D.L.:

We have returned to the Department of Social Services to determine the progress made toward implementing the recommendations in our audit report covering the period March 1, 1985 - September 30, 1987. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the Department has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

We therefore, recommend that the certification limits as outlined in the audit report, be granted for a period of three (3) years.

Sincerely,

A handwritten signature in dark ink, appearing to read "Voight Shealy".

R. Voight Shealy, Manager
Audit and Certification

